

Q3 2005

Quarterly

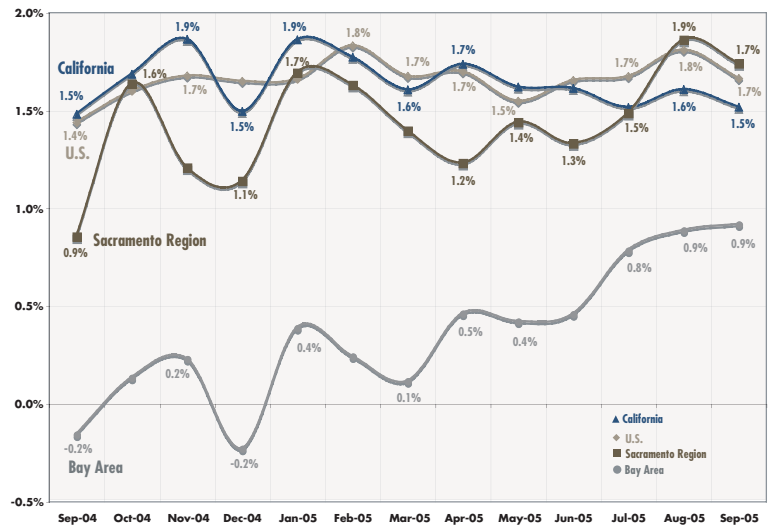
ECONOMIC REPORT

Sacramento Region's Job Growth Remained Above State and National Averages in September 2005

Region ranked near top of list compared to regions throughout the state

For the second straight month, job growth in the six-county Sacramento Region remained above the statewide and national averages in September 2005, following a year of growth near or below the two benchmarks. Between September 2004 and 2005, the Region posted a 1.7 percent employment growth rate, reflecting a gain of 15,600 jobs.

Year-over-year employment growth rates for the state have been steadily decreasing since the beginning of 2005, and have consistently fallen below the national average over the past few months. The state saw 1.5 percent job growth in September 2005 with an addition of 221,500 jobs over the past 12 months.



Job Growth

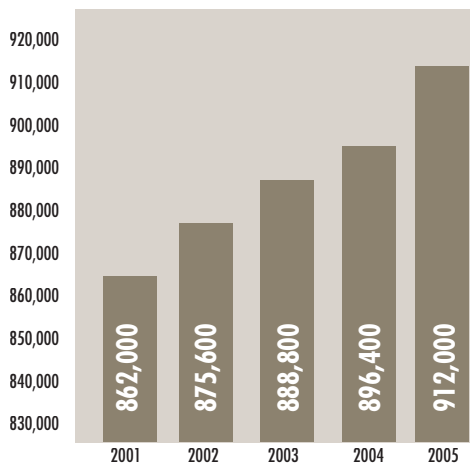
Sacramento Region, Bay Area, California and United States

Data Source: California Employment Development Department and Bureau of Labor Statistics

Note: Job growth reflects year-over-year employment growth rates.

Sacramento Region Employment

September 2001–2005



Sacramento Regional Research Institute, October 2005

Data Source: California Employment Development Department

An economic report on the six-county Sacramento Region provided by the Sacramento Regional Research Institute (SRRI), a joint venture of SACTO and California State University, Sacramento

The nation experienced a year-over-year gain of nearly 2.2 million jobs. This gain reflects a 1.7 percent growth rate, which is the same as the average growth rate for the nation over the past year's fairly flat job growth trend.

Since moving consistently into positive job growth in January 2005, the Bay Area has shown a notable upward trend, reaching close to one percent year-over-year employment growth for the past few months. The September 2005 employment growth rate of 0.9 percent is a significant improvement over the -0.2 percent year-over-year job growth seen in September 2004. Over the past 12 months, the Bay Area gained 25,900 jobs.

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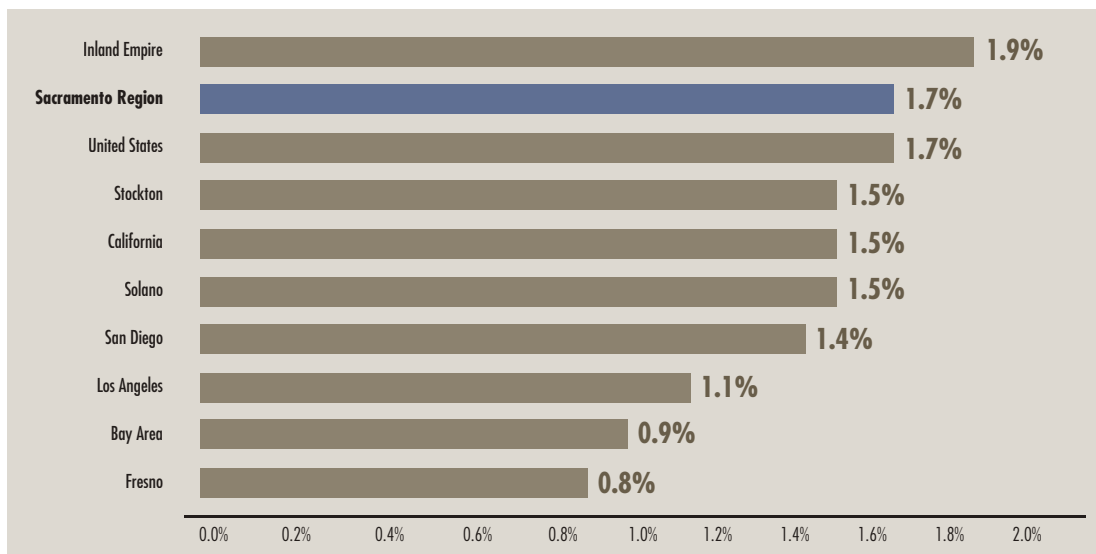
Job Growth *cont.*

The Sacramento Region posted the second-highest job growth compared to neighboring areas and the state's largest regions, falling behind the Inland Empire. Among the selected regions, only the Sacramento Region and the Inland Empire experienced year-over-year employment growth rates above the national average, and with the addition of Stockton, only three regions posted growth

above the statewide average. Only two regions, the Bay Area and Fresno, saw job growth below 1 percent. With the recovery of the Bay Area and continued strength of the state's inland areas, the gap between growth rates for regions at the top and the bottom of the list has decreased, which despite falling below the national average, demonstrates the relatively healthy and stable economic conditions throughout the state.

Employment Growth Rate

Selected Regions,
September 2004–2005
Sacramento Regional Research
Institute, October 2005
Data Source: California Employment
Development Department and Bureau
of Labor Statistics



Trade, Transportation & Utilities and Government Sectors Placed Near Top of the List for Regional Job Gains

Since returning to positive year-over-year employment growth in March 2005 following two years of negative job growth, the Sacramento Region's public sector has slowly climbed up the list of major sector job gains. For the past three months, the Government sector has placed near the top of the list along with Trade, Transportation & Utilities. Between September 2004 and 2005, the public sector accounted for over one-quarter of the Region's net job gains. During this time period, the top three private sector industries included Trade, Transportation & Utilities; Construction; and Professional & Business Services. These three sectors combined added close to 10,000 jobs and accounted for about 64 percent of the net gains. The Region only lost jobs in one sector over the past year—Information.

September 2005 marked the second month in a row that no sector in the state overall experienced year-over-year job losses. The largest gains in California were in the Construction; Professional & Business Services; and Leisure & Hospitality sectors. The state's gains in Leisure & Hospitality were different than the Sacramento Region, where this sector saw relatively limited job growth.

Major Sector Employment Gains and Losses

Sacramento Region, Bay Area and California

Sector	September 2004–2005		
	Sacramento Region	California	Bay Area
Total Nonfarm	15,600	221,500	25,900
Private Sector	11,600	208,400	24,300
Public Sector	4,000	13,100	1,600
Trade, Trans., & Util.	5,300	20,400	1,600
Government	4,000	13,100	1,600
Construction	2,600	61,600	4,200
Prof. & Business Svcs.	2,000	40,300	700
Manufacturing	1,000	0	500
Edu. & Health Svcs.	900	24,000	9,500
Other Services	300	4,300	-600
Financial Activities	200	14,700	5,900
Leisure & Hospitality	200	35,800	3,300
Nat. Res. & Mining	0	0	100
Information	-900	7,300	-900

Sacramento Regional Research Institute, October 2005
Data Source: California Employment Development Department

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Sector Job Gains *cont.*

For the first time in a long while, the Bay Area experienced year-over-year job gains in the Government sector. The Bay Area posted job losses in only two sectors—Information and Other Services while Educational & Health Services; Financial Activities; and Construction saw the greatest employment gains between September 2004 and 2005. Besides the Construction sector gains, the Bay Area showed a different employment growth pattern than the state and the Sacramento Region.

Both of the Sacramento Region's metropolitan statistical areas (MSAs) posted positive job growth in September 2005. The Yuba City MSA (Sutter and Yuba Counties) pulled out of a pattern of negative job growth at the beginning of 2004 and has seen an increasing trend ever since. In fact, the September 2005 year-over-year growth rate marks one of the highest points at 5.4 percent. All sectors in Yuba City either saw no or positive growth with overall gains driven primarily by Trade, Transportation & Utilities. As a result of its size, the Region's overall job growth is mainly supported by the Sacramento-Arden Arcade-Roseville MSA (El Dorado, Placer, Sacramento and Yolo Counties), which accounted for about 87 percent of the Region's total job gains. Growth in this MSA was primarily driven by the Trade, Transportation & Utilities; Government; and Professional & Business Services sectors.

For the first time since the Bay Area's downturn, the San Jose-Sunnyvale-Santa Clara MSA (Santa Clara and San Benito Counties) posted positive year-over-

Employment Gains and Losses

Components of Sacramento Region and Bay Area

	September 2004–2005	
Area	Absolute	Rate
Sacramento Region	15,600	1.7%
Sacramento-Arden Arcade-Roseville MSA	13,500	1.6%
Yuba City MSA	2,100	5.4%
Bay Area	25,900	0.9%
Oakland-Fremont-Hayward Div.	17,700	1.7%
San Francisco-San Mateo-Redwood City Div.	8,000	0.9%
San Jose-Sunnyvale-Santa Clara MSA	200	0.0%

Sacramento Regional Research Institute, October 2005

Data Source: California Employment Development Department

year job growth in September 2005. While its growth was minimal, this suggests that that all Bay Area economies have bottomed-out and are contributing to the recovery. The San Jose-Sunnyvale-Santa Clara MSA's growth was mainly affected by the Educational & Health Services and Government sectors. The Bay Area's overall job growth continued to be supported by the Oakland-Fremont-Hayward Metropolitan Division (Alameda and Contra Costa Counties) where the Construction; Educational & Health Service; and Financial Activities exhibited the strongest employment growth. The San Francisco-San Mateo-Redwood City Metropolitan Division (Marin, San Mateo, and San Francisco Counties) also saw positive job growth driven by the Leisure & Hospitality and Educational & Health Services sectors.

Employment Opportunities for Region's Residents Grew Faster than Number of Employable People

Economic theory suggests that as long as the year-over-year growth rate in the number of persons employed is larger than the growth rate in the civilian labor force, a region is in good economic health. For every month over the past year, the Sacramento Region has been in relatively good economic health where the number

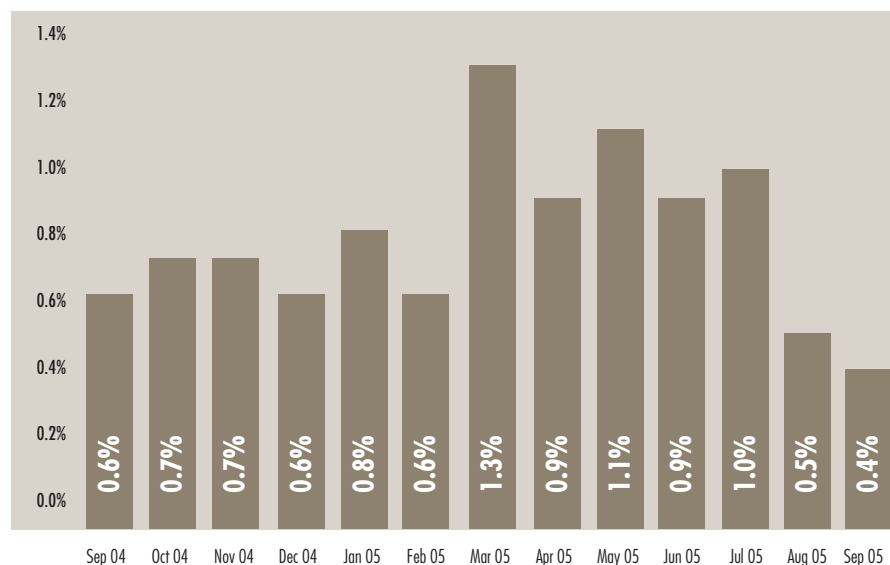
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Sacramento Region Economic Health

Sacramento Regional Research Institute, October 2005

Data Source: California Employment Development Department

Note: Bars reflect the percentage point difference between the year-over-year growth rates in the employed portion of the labor force and the total labor force.



Employment Opportunities *cont.*

of employment opportunities available to the Region's residents grew faster than the number of employable people. Some of the healthiest conditions were posted in March, May, and July where year-over-year growth

rates in persons employed were over 1 percentage point higher than civilian labor force growth rates. The divergence has decreased in the past two months, but still remains positive.



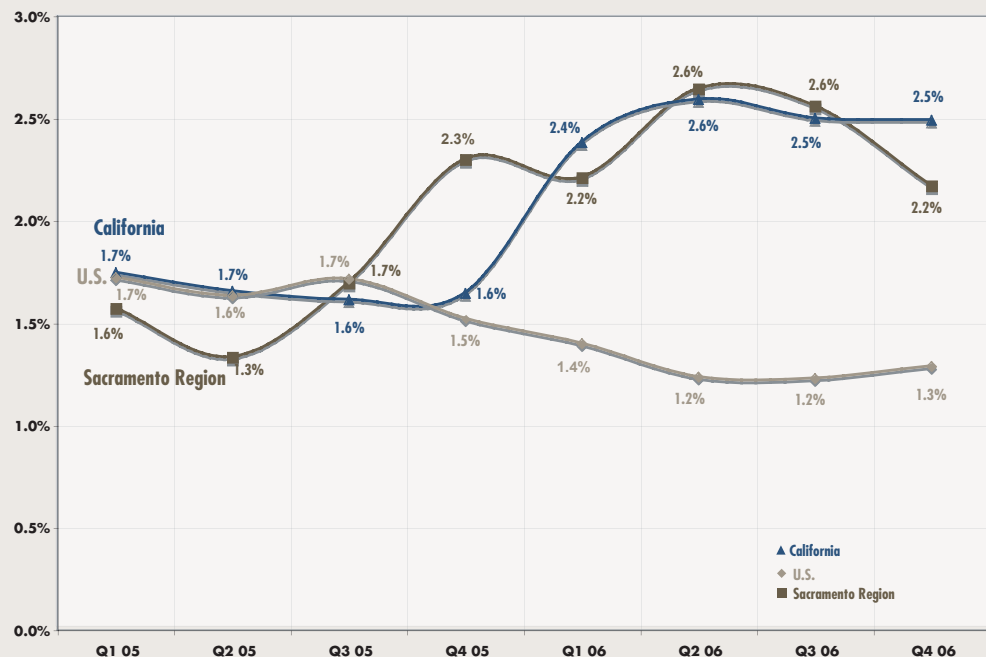
CALIFORNIA STATE UNIVERSITY, SACRAMENTO COLLEGE OF BUSINESS ADMINISTRATION JOB GROWTH FORECAST

Region Forecasted to Post Job Growth Above 2 Percent throughout 2006

California State University, Sacramento's College of Business Administration anticipates that job growth in the Sacramento Region will increase through the remainder of 2005, reaching 2.3 percent by the fourth quarter. According to the Sacramento Forecast Project, the Region's job growth will stay above the statewide and national averages, which are both forecast to see steady and slightly declining employment growth rates through the rest of the year. California and the United States are projected to end the year with 1.6 and 1.5 percent year-over-year employment growth rates, respectively.

The forecast shows the Region posting job growth above 2 percent for every quarter in 2006 with a high of 2.6 percent for the first and second quarters and dropping to 2.2 percent by the fourth quarter. Sacramento's job growth will remain above the national average, but drop below the statewide average in the first and fourth quarters, according to the College. California is forecast to show strong job growth in 2006, posting an average of 2.6 percent employment growth throughout the year. The Sacramento Forecast Project shows the United States experiencing lower job growth in 2006 compared to 2005. The nation's employment growth is projected to average a modest 1.3 percent across the four quarters.

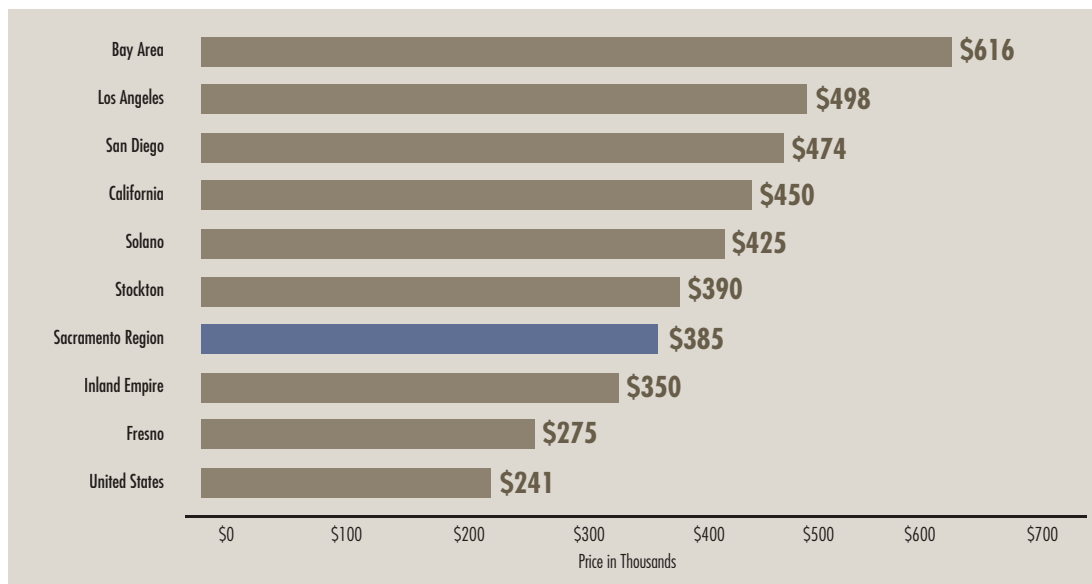
Job Growth Forecast
Sacramento Region,
California and United States
Sacramento Regional Research Institute,
October 2005
Data Source: California State University,
Sacramento, College of Business
Administration, Sacramento
Forecast Project
Note: Job growth reflects year-over-year
employment growth rates.



Sacramento Region Saw Relatively Large Increases in Home Sale Prices and Considerable Declines in Affordability

At about \$385,000 for the second quarter of 2005, the home sale price in the Sacramento Region was one of the lowest among neighboring and major regions in the state. Only two other inland areas had sale prices lower than the Sacramento Region, the Inland Empire and Fresno. Every selected area in the state

saw home sale prices above the national average, but most of California's inland areas, including Sacramento, remained below the statewide average. Three of the state's major regions posted sale prices above the statewide average with the Bay Area's \$616,000 sale price remaining at the top of the list by a notable margin.



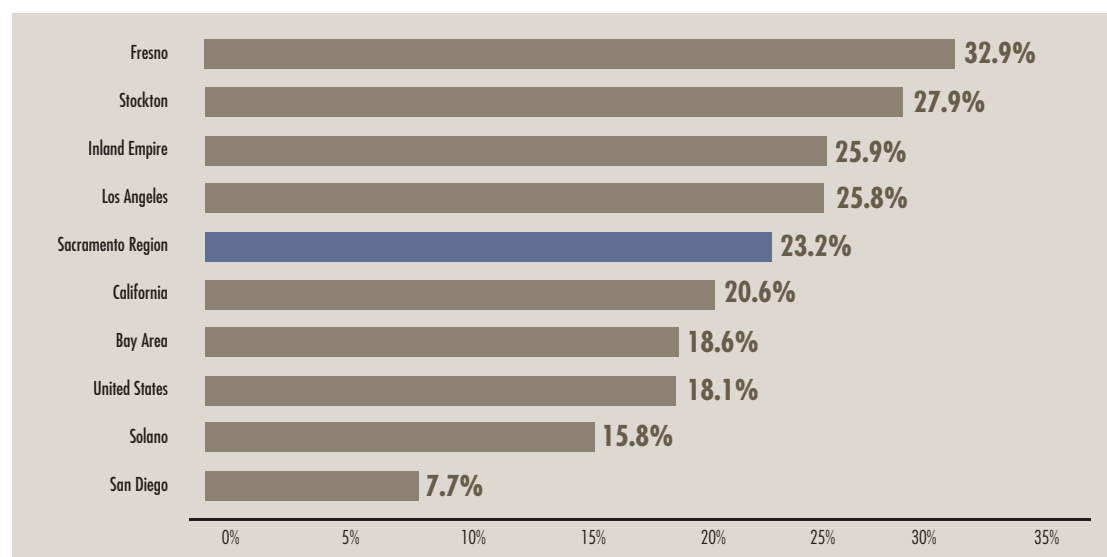
Home Sale Price
Selected Regions,
Second Quarter 2005
Sacramento Regional Research
Institute, October 2005
Data Source: National
Association of Home Builders

The Sacramento Region continued to see strong home sale price growth in the second quarter of 2005, experiencing over 23 percent growth over the same quarter the previous year. Sacramento's growth was higher than the statewide and national averages, but lower than most of the state's inland areas and

Los Angeles. Three selected regions fell below the statewide average—the Bay Area, Solano, and San Diego—and only the latter two experienced growth below the national average. Fresno, the least expensive among the selected areas, posted the highest home sale price growth at close to 33 percent.

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**Home Sale Price
Growth Rate**
Selected Regions,
Second Quarter
2004–2005
Sacramento Regional Research
Institute, October 2005
Data Source: National
Association of Home Builders



Housing *cont.*

Housing Opportunity Index

Selected Regions,
Second Quarter 2005

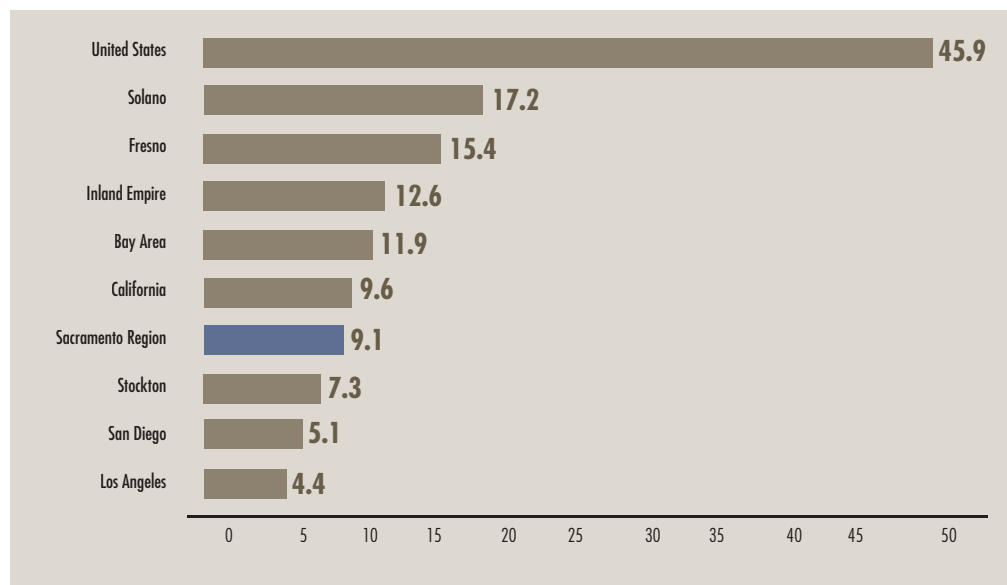
Sacramento Regional Research

Institute, October 2005

Data Source: National

Association of Home Builders

Note: Housing Opportunity Index reflects share of homes sold that would have been affordable to a family earning the median income.



Despite its relatively low sale price in the second quarter of 2005, the Sacramento Region placed near the bottom of the list in terms of housing affordability compared to neighboring and major regions in the state. Only about 9 percent of homes sold in the Region were affordable to families earning a median income. This percentage places Sacramento below the statewide average and the Bay Area, the highest priced region. Two of the other relatively high-priced regions, along with Stockton, saw lower housing affordability than the Sacramento Region, with Los Angeles falling at the bottom of the list where only about 4 percent of homes sold were affordable to median-income households. Every selected region saw affordability well below the national average with Solano ranking as the most affordable.

All selected areas experienced a decline in housing affordability between the second quarters of 2004 and 2005. The Sacramento Region experienced one of the greatest declines where over 22 percent of homes sold were affordable to families earning the median income in 2004 compared to the current 9 percent—this reflects a decrease of more than 13 percentage points in a 12 month period. The Sacramento Region, along with the Inland Empire and Fresno, were the only three among the selected regions to experience an affordability decline greater than the statewide and national averages while every other area saw lesser declines than these two benchmarks. San Diego, one of the most expensive and least affordable areas, saw the smallest housing affordability decline over the past year among the selected regions.

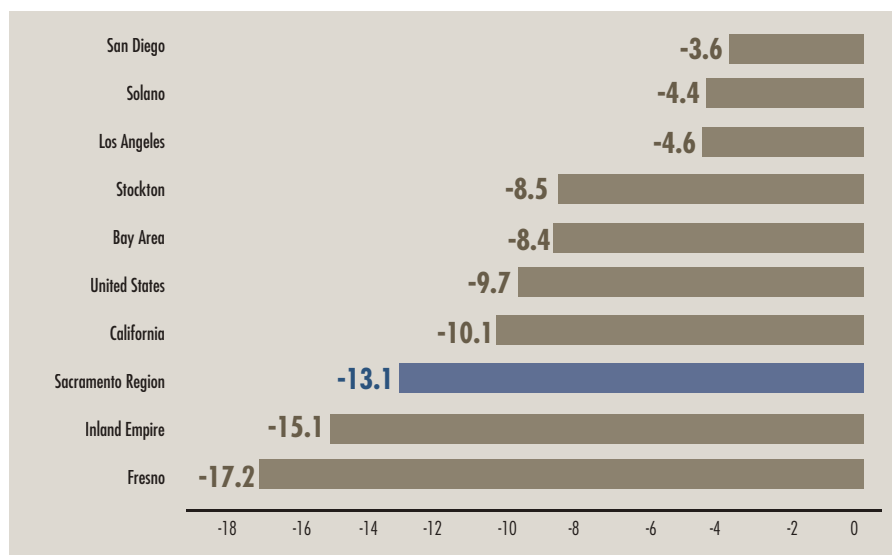
Housing Opportunity Index Percentage Point Change

Selected Regions,
Second Quarter 2004–2005

Sacramento Regional Research Institute,
October 2005

Data Source: National Association
of Home Builders

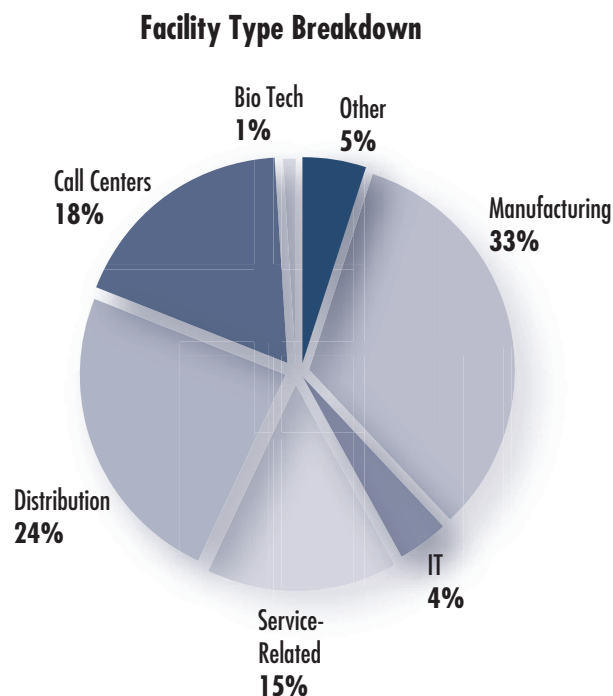
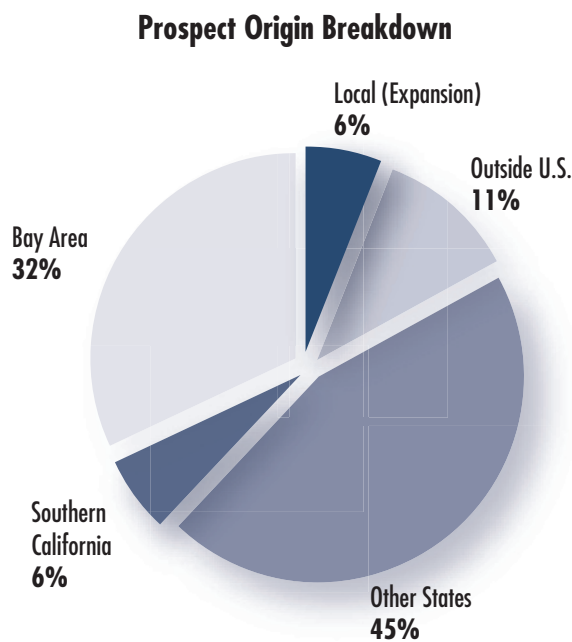
Note: Housing Opportunity Index reflects share of homes sold that would have been affordable to a family earning the median income.



SACTO Prospect Activity Saw Q3 Increases

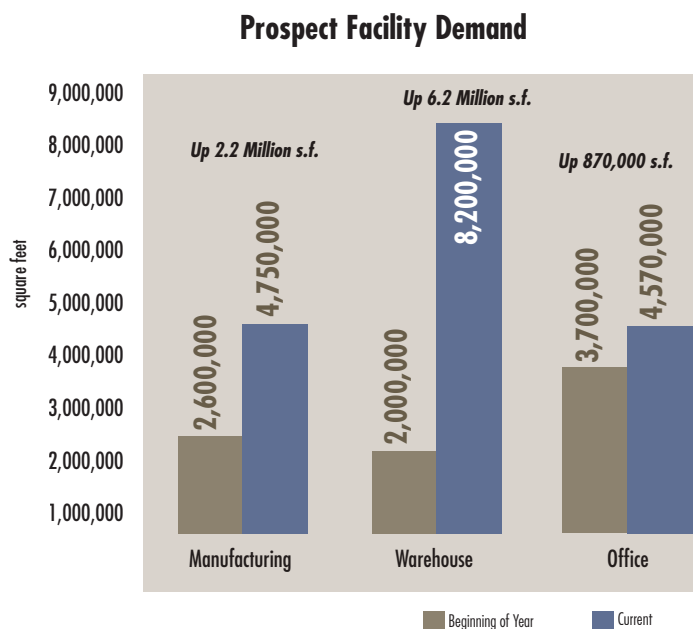
In the past year, SACTO assisted with the location and expansion of six companies to the region. They include Universal Technical Institute, Millennium Teleservices, Talley Communications, First Data Government Solutions, Affymetrix, Inc. and Siemens Transportation Systems, Inc. The total regional impact is approximately 1,900 jobs to the region, \$117 million dollars of value-added, \$249 million dollars of output, \$72 million dollars of employee compensation and \$12 million dollars of state and local taxes.

According to the **Prospect Origin Breakdown**, SACTO is currently seeing nearly an equal number of domestic firms originating from outside of California as within. Within the last two years, this relationship has changed from what was a majority of firms coming from within California. International activity has fluctuated consistently around ten percent.



The largest sections of prospect firms are what could be described as “industrial-related.” Of the total prospect list, 57 percent are characterized as distribution or manufacturing operations. While prospect levels are high, competition for manufacturers is fierce with many states offering generous incentives. The number of service-related and call center users have increased steadily over the last two years, increasing from 21 to 33 percent of total prospects.

Overall, prospect activity since the beginning of the calendar year has increased to high levels. Total demand for real estate necessary for operations if located in the region increased by 9.2 million square feet, more than doubling the total in January. The total number of employees necessary for those prospective operations also doubled, with a total now reaching 17,500.



Quarterly

ECONOMIC REPORT

A PUBLICATION BROUGHT TO YOU BY SACTO AND
THE SACRAMENTO REGIONAL RESEARCH INSTITUTE

SACTO



The Inside Track

ABOUT SACTO

SACTO is the region's leading facilitator of economic development bringing together the organizations, information and resources in the pursuit of jobs, talent and investment needed to ensure regional prosperity and global competitiveness.

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ABOUT SRRI

SRRI provides a full range of objective economic and demographic research services to government entities, businesses and non-profit organizations.

Sacramento Regional Research Institute

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